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*Attorneys for Defendant and Counterclaim-Plaintiff Novell, Inc.***IN THE UNITED STATES DISTRICT COURT****DISTRICT OF UTAH, CENTRAL DIVISION**THE SCO GROUP, INC., a Delaware
corporation,

Plaintiff,

vs.

NOVELL, INC., a Delaware corporation,

Defendant.

Case No. 2:04CV00139

**NOVELL'S PROPOSED FINDINGS OF
FACT AND CONCLUSIONS OF LAW
REGARDING BENCH TRIAL CLAIMS**

Judge Ted Stewart

AND RELATED COUNTERCLAIMS.

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I. INTRODUCTION

Following the jury's verdict in Novell's favor, three claims remain for the Court to resolve: (1) SCO's claim for specific performance, directing Novell presently to transfer the UNIX copyrights to SCO; (2) Novell's request for declaratory relief on the scope of its waiver rights under Section 4.16(b) of the Asset Purchase Agreement ("APA"); and (3) SCO's claim that Novell breached the implied covenant of good faith and fair dealing by exercising its rights under Section 4.16(b) of the APA to waive SCO's purported claims against SVRX licensees. Based on the evidence presented at the March 2010 jury trial and the April/May 2008 bench trial before Judge Kimball, SCO's claims should be rejected and declaratory relief should be entered confirming Novell's waiver rights.

SCO's claim for specific performance fails for two significant reasons. First, the jury has already decided that Novell retained ownership of the UNIX and UnixWare copyrights under the amended APA, thereby confirming that (1) the parties did not intend for the copyrights to transfer to SCO, and (2) the copyrights were not "required" for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies. Any argument by SCO that the copyrights are now required for SCO to exercise those rights would necessarily run afoul of the jury's verdict. SCO's claim for specific performance has been mooted by the jury's verdict and should be rejected on that basis alone.

Second, as confirmed by the jury's verdict, SCO has failed to show that the UNIX and UnixWare copyrights are required for it to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies. To the contrary, the testimony of SCO's own witnesses establishes that the copyrights were never required for SCO to exercise those rights. While SCO has argued that it needed the copyrights to conduct its SCOSource licensing campaign (which was not even conceived of until more than seven years after the APA), the amended APA did not allow SCO to pursue that business. Moreover, SCO's own expert testified that the SCOSource program is now "dead," obviating any possible need by SCO for the UNIX copyrights now.

With respect to Novell’s waiver rights under Section 4.16(b) of the APA, Novell retained the right, in its “sole discretion,” to direct SCO to waive claims relating to SVRX licenses. SCO has failed to show that Novell acted in bad faith in exercising those rights. Contrary to SCO’s contention, Novell’s waiver of SCO’s claims was within its express contractual rights and did not impinge on SCO’s main interest acquired under the APA—the right (and obligation) to develop and sell UnixWare. Following the jury verdict, it is now beyond dispute that while SCO acquired development rights to UnixWare, Novell kept most of the interests in the SVRX licenses. Not only did Novell retain the right to royalties from SVRX licenses, it retained ownership of the SVRX copyrights as well. SCO had a fiduciary obligation to act as Novell’s agent to collect SVRX royalties, subject to the control retained by Novell under Section 4.16(b). As Novell’s agent, SCO had no business under the APA trying to enforce SVRX licenses in a manner contrary to Novell’s instructions.

Finally, SCO’s claims for specific performance and breach of the implied covenant of good faith and fair dealing also fail because SCO cannot prove, as it must, that it substantially performed its own obligations under the amended APA.

II. TENTH CIRCUIT RULINGS AND BURDEN OF PROOF

A. Tenth Circuit Rulings on Remaining Bench Trial Claims.

The Tenth Circuit reversed Judge Kimball’s determination that Novell was entitled to summary judgment on SCO’s claim for specific performance, but took no position on “which party ultimately owns the UNIX copyrights or which copyrights were ‘required’ for Santa Cruz to exercise its rights under the agreement.” *The SCO Group, Inc., v. Novell, Inc.*, 578 F.3d 1201, 1219 (10th Cir. 2009), *petition for cert. filed* (U.S. Mar. 4, 2010) (No. 09-1061). Instead, the court found that these were issues for the finder-of-fact on remand. *Id.*

With respect to Section 4.16(b) of the APA, the Tenth Circuit found that “the scope of Novell’s waiver rights is not clarified expressly by the contract.” *Id.* at 1225. The court reasoned that the term “SVRX License” is ambiguous because if it is interpreted to mean the entire set of SVRX agreements (software agreements, sublicensing agreements, and product

supplement agreements), it could allow Novell to divest SCO of “its exclusive and undisputed ownership rights in the underlying source code of UNIX.” *Id.* at 1224. The Tenth Circuit found that summary judgment on Novell’s claim for declaratory relief was premature because the language of Section 4.16 was not “so clear” as to preclude SCO’s interpretation of the scope of Novell’s waiver rights. *Id.* at 1224. Based on its determination that the scope of waiver rights was not expressly clarified in the contract, the Tenth Circuit also reversed the district court’s finding that Novell did not breach the implied covenant because Novell was acting within an explicit grant of contractual authority. *Id.*

B. Burden of Proof.

SCO bears the burden of proof on its claims for specific performance and breach of the implied covenant of good faith and fair dealing. *Tamarind Lithography Workshop, Inc. v. Sander*, 143 Cal. App. 3d 571, 575 (Ct. App. 1983) (elements required to obtain remedy of specific performance); Judicial Council of California Civil Jury Instruction (“CACI”) 325 (Exhibit 1, attached hereto) (elements required to establish breach of the implied covenant of good faith and fair dealing).¹ SCO must meet its burden by a preponderance of the evidence.

III. FINDINGS OF FACT

A. Asset Purchase Agreement.

1. Included and Excluded Assets Under the Amended APA and Related Agreements.

Under the amended APA, Santa Cruz acquired certain assets relating to Novell’s UNIX and UnixWare business. Section 1.1 of the APA provides that Santa Cruz acquired all of Novell’s “right, title and interest in and to the assets and properties of Seller relating to the Business (collectively the ‘Assets’) *identified on* Schedule 1.1(a).” (Trial Ex. A1, § 1.1(a) & Schedule 1.1(a) (emphasis added).) The only items listed in the intellectual property Section of Schedule 1.1(a) of the APA are the UNIX and UnixWare trademarks.

¹ California law applies because these are contract claims governed by the California choice-of-law clause in Section 9.8 of the APA. (Trial Ex. A1 § 9.8.)

Section 1.1 further provides that, “notwithstanding the foregoing” (i.e., regardless of whatever may otherwise be listed on Schedule 1.1(a)), the assets to be purchased do *not* include the excluded assets set forth in Schedule 1.1(b), which were retained by Novell. (Trial Ex. A1, § 1.1(a) & Schedule 1.1(b); March 2010 Trial Tr. at 2366:7-2367:16.) *See also The SCO Group*, 578 F.3d at 1205; *id.* at 1210 (the “APA explicitly provides that ‘. . . the Assets to be so purchased shall not include those assets (the “Excluded Assets”) set forth on Schedule 1.1(b)”); (Order at 3-4, Dkt. No. 377.)

Schedule 1.1(b) originally excluded “all copyrights” from the list of transferred assets. (Trial Ex. A1, Schedule 1.1(b).) Amendment No. 1 to the APA, executed on December 6, 1995, did not alter the exclusion of “all copyrights” in Schedule 1.1(b). (Trial Ex. T5 at 7-9.) Amendment No. 2 to the APA, dated October 16, 1996, revised Schedule 1.1(b) to exclude “[a]ll copyrights and trademarks, except for the copyrights and trademarks owned by Novell as of the date of the Agreement required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.” (Trial Ex. N8 at 1.) The list of Included Assets (Schedule 1.1(a)) was not modified by Amendment No. 2.

Novell’s Board of Directors approved the APA with specific reference to the exclusion of all copyrights. (Trial Ex. Z3 at 2.) If Amendment No. 2 had been intended to change this exclusion and to transfer copyright ownership, that would have been a material change that required separate Board approval, but such approval was never sought or obtained. (March 2010 Trial Tr. at 2037:11-25.)

Under Schedule 1.2(b) of the APA, Santa Cruz was entitled to keep all royalties from sales of UnixWare and derivatives, unless certain sales thresholds were met. (Trial Ex. A1, Schedule 1.2(b).)

Under Section 6(b) of the Operating Agreement (which was called for by the APA), Santa Cruz was obligated to distribute, offer, promote, and market UnixWare. (Trial Ex. X5 at 5, § 6(b)(i).)

Under Section 4.18 of the APA and under the related Operating Agreement, Santa Cruz was obligated to develop a merged product based on specifications from Santa Cruz and Novell. (Trial Ex. A1 § 4.18.) The merged product was to include elements from UnixWare and SCO's OpenServer product. (Trial Ex. X5 at 2, § 2.)

Under Section 1.6 of the APA and under the related Technology License Agreement ("TLA"), Novell obtained a license from Santa Cruz for the technology included in the Assets actually being transferred (as defined above) and any derivatives of that technology created by Santa Cruz. (Trial Ex. A1 § 1.6; Trial Ex. 162 (TLA).) Naturally, these provisions did not grant Novell a license to any of the Excluded Assets (as defined above), because Novell had retained them under the APA.

2. Section 4.16 of the APA.

Section 4.16(a) of the APA establishes that Novell retained 100% of royalties from SVRX Licenses (except for the royalties specified in Section 1.2(e) of the amended APA), less a 5% administrative fee to be paid to Santa Cruz as compensation for its agency work. (Trial Ex. A1 § 4.16(a).) "SVRX Licenses" include "[a]ll contracts relating to" the UNIX System V releases listed in subpart VI of Schedule 1.1(a), up to and including UNIX System V 4.2 MP. (*Id.* § 4.16(a), Schedule 1.1(a).) Section 4.16(a), as amended by Amendment No. 1, provides as follows:

Following the Closing, Buyer shall administer the collection of all royalties, fees and other amounts due under all SVRX Licenses (as listed in detail under item VI of Schedule 1.1(a) hereof and referred to herein as "SVRX Royalties"). Within one (1) calendar month following each calendar month in which SVRX royalties . . . are received by Buyer [except for those SVRX Royalties to be retained in their entirety by Buyer pursuant to paragraph (e) of Section 1.2 hereof] Buyer shall remit 100% of all such royalties to Seller or Seller's assignee. . . . In consideration of such activities described in the preceding sentence, Seller shall pay to Buyer within 5 days of receipt of SVRX Royalties from Buyer as set forth in the preceding sentence, an administrative fee equal to 5% of such SVRX Royalties

(*Id.* § 4.16(a); Trial Ex. T5 at 6.)

Under Section 1.2(e) of the APA (added by Amendment No. 1), SCO has the right to retain the following categories of SVRX Royalties: (i) fees attributable to stand-alone contracts

for maintenance and support of SVRX products; (ii) source code right to use fees under existing SVRX Licenses from the licensing of additional CPUs and from the distribution by SCO of additional source code copies; (iii) source code right to use fees attributable to new SVRX licenses approved by Novell; and (iv) royalties attributable to distribution by SCO and its distributors of binary copies of SVRX products, to the extent such copies are made by or for SCO pursuant to its own licenses from Novell acquired before the Closing Date. (Trial Ex. T5 at 3.)

Section 4.16(b) of the APA establishes Novell's broad authority to waive rights under any SVRX License. (Trial Ex. A1 § 4.16(b).) First, it recites that SCO has no authority to amend, modify, or waive any right under any SVRX License without Novell's consent:

Buyer shall not, and shall not have the authority to, amend, modify or waive any right under or assign any SVRX License without the prior written consent of Seller.

(*Id.*) Amendment No. 1 specifies only two circumstances in which amendments by SCO are permissible:

Notwithstanding the foregoing, Buyer shall have the right to enter into amendments of the SVRX Licenses (i) as may be incidentally involved through its rights to sell and license UnixWare software or the Merged Product . . . or (ii) to allow a licensee under a particular SVRX License to use the source code of the relevant SVRX product(s) on additional CPU's or to receive an additional distribution, from Buyer, of such source code.

(Trial Ex. T5 at 6-7.)

Section 4.16(b) also establishes that Novell has broad authority to direct SCO to amend, supplement, modify, or waive any right under any SVRX License. Should SCO fail to take such action as directed, Novell is authorized to undertake the action on SCO's behalf:

In addition, at *Seller's sole discretion* and direction, *Buyer shall* amend, supplement, modify or *waive any rights under*, or shall assign any rights to, *any SVRX License to the extent so directed in any manner or respect by Seller*. In the event that Buyer shall fail to take any such action concerning the SVRX Licenses as required herein, Seller shall be authorized, and hereby is granted, the rights to take any action on Buyer's own behalf.

(Trial Ex. A1 § 4.16(b) (emphasis added).)

Finally, Section 4.16(b), as amended by Amendment No. 1, prohibits SCO from entering into any new SVRX Licenses, except as may be incidental to its rights to sell and license UnixWare or the “Merged Product”:

Buyer shall not, and shall have no right to, enter into new SVRX Licenses except in the situation specified in (i) of the preceding sentence [“as may be incidentally involved through its rights to sell and license UnixWare software or the Merged Product”] or as otherwise approved in writing in advance by Seller on a case by case basis.

(Trial Ex. A1 § 4.16(b); Trial Ex. T5 at 6-7.) The “Merged Product” is defined in the Operating Agreement as a merger of the UnixWare and OpenServer products. (Trial Ex. X5 at Ex. A.)

B. SCO’s Claim for Specific Performance Requiring Novell to Transfer Copyrights.

1. Novell Intentionally Retained Copyright Ownership.

There is no question that copyrights were intentionally retained by Novell in the Asset Purchase Agreement. Tor Braham, the Wilson Sonsini attorney who was the primary draftsman of the APA and architect of the copyright exclusion provisions and Section 4.16, testified that the copyright exclusion was negotiated and agreed upon at the direction of Novell. (March 2010 Trial Tr. at 2363:19-23.) Mr. Braham and Mike DeFazio, former head of the UNIX and UnixWare business at Novell, agreed that the copyright exclusion was designed to protect Novell’s interests. (*Id.* at 2364:3-15, 2425:16-2426:15 (Mr. Braham’s testimony regarding Novell’s important interest in retaining UNIX business, concern about possible SCO bankruptcy, and strategic concern that Microsoft was monopolizing area); *id.* at 2311:7-17 (Mr. DeFazio’s testimony that retention of copyrights was crafted to implement goal of “bulletproofing” Novell’s financial asset stream).)

David Bradford, General Counsel for Novell for roughly 15 years including at the time of the APA and Amendment No. 2, testified that Novell’s Board of Directors approved the APA transaction with the proviso that Novell would retain all copyrights. (*Id.* at 2442:1-19.)

Mr. Bradford was Secretary to the Board of Directors, attended all Board meetings for his 15 years at Novell, and prepared the Board minutes.² (*Id.* at 2434:14-23.)

James Tolonen, Novell's Chief Financial Officer at the time of both the APA and Amendment No. 2 and signer of Amendment No. 2, testified that copyrights were purposefully excluded (1) as part of an overall strategy to retain ownership of the original software, (2) because Santa Cruz could not afford the entire value, and (3) because Novell was concerned about the long-term viability of Santa Cruz and wanted to ensure its rights would not be brought into question if Santa Cruz was acquired by a competitor. (*Id.* at 2021:24-2023:18.)

Mr. Tolonen made several presentations to the Novell Board of Directors describing the APA process. (*Id.* at 2025:7-2026:10.)

At the jury trial, to support its argument that Novell intended to transfer the copyrights at the time of the APA, SCO presented several pieces of evidence that the jury clearly did not find persuasive. For instance, SCO presented draft term sheets for the APA that did not refer to copyright retention or exclusion, but these term sheets preceded the final draft of the APA that the parties signed. As Mr. Braham testified, term sheets do not show what ultimately was agreed to in negotiations, let alone the final form of the APA agreed upon and signed by the parties. (*Id.* at 2400:12-2401:5.)

SCO also presented a purportedly "joint" press release referring generally to the transfer of intellectual property, but the press release itself contains only SCO contact information and SCO logos, and there is no convincing evidence that the press release was jointly approved. (Trial Ex. 526.) It also does not specifically refer to copyrights. Novell also demonstrated that the term "intellectual property" had multiple meanings to those involved in the APA and could have been used to refer to the UNIX source code that was transferred to Santa Cruz. (March 2010 Trial Tr. at 1769:5-1770:9.)

² Robert Frankenberg, Novell's Chief Executive Officer at the time the APA was approved, confirmed that the minutes for the September 18, 1995 Board meeting at which the APA was approved (and which made explicit reference to the APA excluding the UNIX and UnixWare copyrights) were accurate. (*Id.* at 147:10-25.)

SCO presented course of conduct evidence such as letters sent to customers after the APA, changes in copyright notices, and physical possession of the copyright registrations, but testimony from SCO's own witnesses revealed that (1) the letters at issue were not meant to give customers all details, but merely convey that customers needed to deal with Santa Cruz going forward; (2) neither copyright notices nor copyright registrations demonstrate who owns the copyrights if they conflict with the underlying agreements; and (3) when the APA was finalized, UNIX staff and property simply remained in the same physical location in New Jersey. (*Id.* at 1706:14-19, 1778:21-1779:20, 641:19-642:3.) Moreover, copyright notices were changed only on the then-current releases of UnixWare that Santa Cruz was taking over, and not older UNIX or UnixWare releases. Andrew Nagle, SCO's Senior Director of Product Development, confirmed that copyright notices were only changed on the current software version that Santa Cruz was going to release after the APA, and SCO did not go back to change copyright notices on older UnixWare or System V Release 4.2MP because it was SCO's understanding that ownership of copyrights in older code was established by the legal agreements, not the notices. (*Id.* at 1775:15-1776:16.)

SCO argued that Novell did not seek to correct a Wall Street Journal article stating that "most" intellectual property transferred to Santa Cruz, but SCO presented no evidence that anyone at Novell was even aware of the article, and Duff Thompson (a Novell senior executive in 1995 and subsequently a Santa Cruz and SCO board member) acknowledged the article did not say "all" intellectual property. (*Id.* at 254:9-23, 318:22-319:8.)

SCO argued that a Hart-Scott-Rodino Act filing did not refer to the retention of copyrights, but Mr. Braham pointed out that the full APA itself was attached and incorporated by reference. (*Id.* at 2412:22-2415:15, 2429:5-25.) Thus, the Federal Trade Commission had full access to the details and actual terms of the APA.

SCO presented a June 2003 press release from Novell in which Novell stated that Amendment No. 2 "appears to support SCO's claim that ownership of certain copyrights" transferred. Mr. LaSala testified that this statement was based on a "first reading of the

amendment, a hurried reading of the amendment,” but upon further reflection he concluded that Amendment No. 2 did not support SCO’s claim. (*Id.* at 1906:9-21.) Novell subsequently investigated the matter further and sent a follow-up letter to SCO on June 26, 2003, clarifying that it was still reviewing the documents and did not agree with SCO that copyright ownership had, in fact, transferred. (Trial Exs. 97, T16.)

2. Testimony From March 2010 Jury Trial Regarding What Copyrights are “Required” for SCO to Exercise its Rights with Respect to the Acquisition of UNIX and UnixWare Technologies.

Even assuming that the “required for” language of Amendment No. 2, without other amendments to the APA schedules, could support a finding that copyright ownership was to be transferred to SCO, SCO failed to meet its burden of proving that ownership of the UNIX and UnixWare copyrights extant as of the time of the APA was or is “required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.” (Trial Ex. N8 at 1.)

Darl McBride, CEO of SCO from 2002 to 2009 and the architect of the SCOsource program, admitted that SCO could run its software business without owning the UNIX copyrights. (March 2010 Trial Tr. at 1225:2-1226:10.) He testified that the UNIX copyrights were not required for SCO to run its UnixWare and OpenServer software business, since SCO could “run our business . . . without the copyrights, just like HP, IBM, all of the other licensees of UNIX can run their businesses as well.” (*Id.* at 1225:24-1226:1.) He further admitted that SCO could develop and sell its UnixWare products without ownership of the UNIX copyrights. (*Id.* at 1231:11-19.) Mr. McBride testified only that SCO was unable to “run [its] business for the licensing side” without the copyrights. (*Id.* at 1226:2-3.) Mr. McBride asserted that the copyrights were needed for SCO’s new business of licensing—and, if necessary, suing—Linux users. (*Id.* at 1226:1-10.) But SCO presented no evidence that suing Linux users was part of the “rights” transferred under the APA. Rather, even SCO’s witnesses testified that the APA was intended to enable Santa Cruz to develop a new version of UnixWare that could compete with Microsoft Windows. (*Id.* at 91:7-13; 92:20-93:1 (Robert Frankenberg); 224:23-225:25 (Duff Thompson); *see also* 429:2-10 (Jack Messman).)

Ryan Tibbitts, SCO's in-house corporate counsel from 2003 to the present, admitted that the UNIX copyrights are not required to run SCO's product business. (*Id.* at 1850:20-1851:18.) Indeed, he acknowledged that SCO was recently involved in a proposed transaction whereby SCO would sell its UNIX-related business to a third-party yet still retain all of its copyrights. (*Id.*) Mr. Tibbitts testified that someone could buy and operate SCO's product business and not receive the UNIX copyrights. (*Id.*) Under the proposed deal, SCO would have retained only its intellectual property business (*id.*), which Mr. Tibbitts acknowledged was a new business. (*Id.* at 1859:8-20 (SCOsource was launched as a new "licensing line" in 2003).)³ Moreover, neither Mr. Tibbitts nor anyone else at SCO testified as to precisely which copyrights SCO purportedly required.⁴

Steven Sabbath, General Counsel of Santa Cruz at the time Amendment No. 2 was signed, testified that SCO needed the copyrights in order to "defend the property." (*Id.* at 913:7-15.) Specifically, he asserted that SCO would "need all of the copyrights" in order to enforce its rights to the technology, including going after somebody that is "pirating" SCO's software. (*Id.* at 913:17-915:5.) However, Mr. Sabbath acknowledged that SCO would have the right to develop new code based on older UNIX code as a licensee (*id.* at 939:3-18), and that SCO would own the copyrights to the new code that it wrote. (*Id.* at 933:2-7.) As for the license-back provision in the APA and the related TLA, which SCO argued made sense only if copyright

³ Dr. Christine Botosan, one of SCO's damages experts, also testified that the SCOsource licensing program was a new "product" for SCO for which there was no "previous history" to look at. (*Id.* at 1447:5-8; 1448:3-5; 1449:8-11; 1453:20-24.)

⁴ William Broderick, SCO's director of software licensing, was asked what copyrights were required for Santa Cruz to operate its UNIX and UnixWare business, and he responded only that it "would have acquired all the copyrights." (*Id.* at 802:23-803:1.) Kim Madsen, a paralegal at Santa Cruz from 1990 to 2004 who helped negotiate Amendment No. 2, likewise testified only that Santa Cruz "would have acquired all the copyrights." (*Id.* at 802:23-803:1.) Neither of these statements answer the question of which particular copyrights were "required."

ownership transferred, Mr. Sabbath testified that it would grant Novell the right to license SCO-developed code in which SCO owned copyrights even without such a transfer.⁵ (*Id.* at 933:3-12.)

Additionally, Ms. Madsen testified that Santa Cruz was able to develop its “flavor” of UNIX pursuant to license agreements from Novell and Microsoft (*id.* at 816:19-23), and that it was able to do so without owning the copyrights to the underlying code. (*Id.* at 817:11-14.)

Even assuming *arguendo* that SCO’s SCOSource licensing program might have once supported a claim for transfer of certain copyrights, it can no longer do so. Dr. Gary Pisano, SCO’s damages expert, testified that there is no longer any market for SCOSource licenses. (*Id.* at 1269:15-18.) Specifically, he considered whether SCO could recoup lost sales by going back into the SCOSource business if it prevailed on the issue of copyright ownership. (*Id.*) Dr. Pisano testified that there was “no way” SCO could do it. As he concluded: “That’s dead. The momentum is gone.” (*Id.* at 1270:9-10.)

Novell’s witnesses also supported that the “required for” language of Amendment No. 2 was not intended to support a claim for transfer of copyright ownership in view of the underlying purposes and structure of the APA. Mr. Tolonen and Allison Amadia, the former in-house attorney who represented Novell in the negotiation and drafting of Amendment No. 2, both testified that the “required for” language in Amendment No. 2 was not intended to transfer the UNIX copyrights. (*Id.* at 2036:15-22; 2038:1-3; 2119:21-2120:6; 2123:2-13.) Mr. Tolonen testified that SCO was allowed to use what they needed for the acquisition of UNIX and UnixWare, but that this was “not an ownership question.” (*Id.* at 2036:5-13.) He also explained that Amendment No. 2 did not change Schedule 1.1(a), the schedule of Included Assets. (*Id.* at 2038:4-8.) (Mr. Tolonen explained that the way to transfer the copyrights—had that been the intent of the parties—would have been to include them on the schedule of Included Assets. (*Id.* at 2037:18-25.))

⁵ Joseph LaSala, General Counsel of Novell from 2001 to 2008, also testified that the TLA gave Novell a license-back to all assets conveyed to SCO, as well as additional code to be developed by SCO. (*Id.* at 1964:8-22; 1984:6-1985:21.)

Ms. Amadia testified that under the APA, SCO had an express license to use the UNIX copyrights to the extent necessary for SCO to develop UnixWare technologies. (*Id.* at 2126:24-2127:8 (APA included a license agreement for continued development of technology); *id.* at 2153:10-13; 2155:21-23 (license agreement was express).) The purpose of Amendment No. 2 was to affirm that SCO had the right to use the UNIX and UnixWare technologies to manufacture UnixWare and to make modifications to it. (*Id.* at 2128:9-12.) Ms. Amadia confirmed that, under the APA, SCO owns the copyrights in any derivative works it creates based on the UNIX technology and could enforce those rights. (*Id.* at 2157:21-22.) SCO did not, however, acquire the right to license the underlying UNIX code or to enforce copyrights in that source code. (*Id.* at 2158:1-14.)

Ms. Amadia initially received a draft of Amendment No. 2 from Mr. Sabbath to revise Schedule 1.1(b), but Novell rejected the proposed language because it did not want to alter the APA to transfer the UNIX copyrights to SCO. (*Id.* at 2120:3-14.) Mr. Sabbath's proposed revision of Schedule 1.1(b) would have excluded "[a]ll copyrights and trademarks, except for the copyrights and trademarks owned by Novell as of the date of this Amendment No. 2, which pertain to the UNIX and UnixWare technologies and which SCO has acquired hereunder." (Trial Ex. T34 at 1.) Ms. Amadia revised this language to affirm SCO's license rights under the original APA. (March 2010 Trial Tr. at 2120:23-2121:4.) Ms. Amadia agreed that "if there are copyrights that are required for SCO to exercise its rights," they were transferred under the final version of Amendment No. 2 (*id.* at 2178:15-18), but she was not asked to testify as to which copyrights were required for SCO to exercise its rights under the APA. (*Id.* at 2156:20-2157:3.) (Ms. Amadia further testified that if Novell had intended to modify the APA to transfer the copyrights, she would have amended Schedule 1.1(a), the list of Included Assets. (*Id.* at 2160:21-24.))

3. Argument and Testimony from 2008 Bench Trial Regarding SCOSource Program.

The record of the 2008 bench trial further undermines SCO's claim that ownership of the UNIX and UnixWare copyrights extant at the time of the APA should be transferred to SCO.

Contrary to a claim that SCO required ownership of such copyrights in order to carry out its licensing program, SCO argued at the 2008 bench trial that SCOsource licenses were essentially SCO UnixWare licenses. (2008 Bench Trial Tr. at 32:6-9 (“SCOsource, at its inception and throughout remained concerned with technology that was in UnixWare and OpenServer.”) (Exhibit 2, attached hereto).) At the bench trial, Chris Sontag, SCO’s Senior Vice President responsible for the SCOsource licensing program, testified that the program, in general, was “licensing the most recent versions of SCO’s intellectual property mostly in the form of UnixWare licenses, source code UnixWare licenses.” (*Id.* at 91:9-17.) He described SCOsource licenses as primarily “a release, aspects of a covenant not to sue and a UnixWare license and SCO IP license.” (*Id.* at 197:20-24.) Mr. Sontag also stated that SCO did not need Novell’s approval to execute a UnixWare license, even if there was SVRX material included with that license. (*Id.* at 181:9-13.) Jeff Hunsaker, SCO’s former President and Chief Operating Officer, likewise testified at the bench trial that the “SCOsource program was all . . . built around a UnixWare license.” (*Id.* at 561:21-562:1.) Judge Kimball found that SCO “can enter into amendments of SVRX Licenses” if incidentally involved in the selling and licensing of UnixWare. (Order at 6, 7, 27, Dkt. No. 542.)

C. Novell’s Waiver Rights Under APA Section 4.16(b).

1. Relevant Testimony from March 2010 Jury Trial.

a. Novell Acted in Good Faith With Respect to Actions Taken Under Section 4.16 of the APA.

The evidence presented at trial fails to support SCO’s claim that Novell breached the covenant of good faith and fair dealing in waiving SCO’s claims against SVRX licensees and supports that Novell acted within the scope of its explicit contractual rights.

In a letter dated June 9, 2003, Mr. LaSala, Novell’s General Counsel at the time, directed SCO to waive any right it claimed to have to terminate IBM’s SVRX license. (Trial Ex. F16; March 2010 Trial Tr. at 1908:2-17.) This letter was sent after careful analysis of the relevant documents. (March 2010 Trial Tr. at 1909:19-1910:8.) Although IBM asked for a blanket waiver of all SCO’s claims, Novell’s counsel advised IBM’s counsel that Novell would look

carefully at the relevant documents and would act to waive SCO's claims only if Novell concluded that doing so was called for under a correct interpretation of the documents. (*Id.* at 1909:6-1910:4.) IBM had paid Novell \$10 million in 1996 for a fully paid irrevocable SVRX license, and Novell was concerned that SCO's attempt to revoke that license would lead to IBM to seek recoupment of its \$10 million payment. (*Id.* at 1911:1-1912:22.) Novell was permitted under Section 4.16(b) of the APA to protect its economic interest by directing SCO not to terminate IBM's SVRX license. (*Id.*)

Novell's letters to SCO instructing waiver of claims reflect a careful exercise of Novell's discretion. In its June 9, 2003 letter, Novell explained to SCO that SCO was advancing unsubstantiated charges that could potentially injure Novell, Novell's customers, and the industry in general. (Trial Ex. F16.) Novell pointed out that Novell and SCO had granted IBM an irrevocable, perpetual right under the IBM SVRX licenses, for which IBM paid over \$10 million. (*Id.*) Therefore, as Novell explained, SCO had no right to terminate IBM's SVRX licenses, and it was inappropriate for SCO to threaten to do so. (*Id.*) Novell then quoted from Section 4.16(b) itself, stating that Novell has sole discretion to require SCO to waive any rights under any SVRX license. (*Id.*) At the end of the letter, after making a detailed explanation of its intent and rationale, Novell directed SCO to waive any purported right SCO may claim to terminate IBM's SVRX licenses. (*Id.*) When SCO failed to do so, Novell sent a second letter on June 12, 2003, referring to the APA, Amendment No. X, SCO's March 6, 2003 letter to IBM, and Novell's June 9, 2003 letter. (Trial Ex. 675.) This second letter stated that, pursuant to Section 4.16(b), Novell was waiving any purported right SCO may claim to terminate IBM's SVRX licenses. (*Id.*)

When SCO took the public position that code developed or licensed by IBM not containing UNIX code must nevertheless be maintained as confidential and may not be contributed to Linux, Novell sent a letter on October 7, 2003, again carefully explaining its position. (Trial Ex. F21.) Citing to the various agreements and to public statements by AT&T, the original UNIX licensor, Novell stated that SCO's position was baseless and that IBM code

was not restricted “just because it happened to be combined with AT&T Code in a modification or derivative work.” (*Id.*) Similar to its earlier letters, Novell then repeated Section 4.16(b), which granted it the right to waive any rights under SVRX licenses and to direct SCO to waive any purported right SCO may claim to require IBM to treat IBM code as subject to the confidentiality obligations or use restrictions of IBM’s SVRX license. (*Id.*) SCO ignored this direction, forcing Novell to send a letter on October 10, 2003, waiving SCO’s purported claims to require IBM to treat IBM code as confidential or subject to use restrictions. (Trial Ex. 691.)

SCO took a similar position with SGI, a company unaffiliated with IBM, and attempted to terminate SGI’s SVRX license. (March 2010 Trial Tr. at 1930:5-1931:22.) On October 7, 2003, Novell sent a letter to SCO addressing SCO’s position that code developed or licensed by SGI not containing UNIX code must nevertheless be maintained as confidential and may not be contributed to Linux. (Trial Ex. G21.) Novell noted that SGI had paid \$19 million for a fully paid-up license and demonstrated why SCO’s position was mistaken. (*Id.*) Novell then recited Section 4.16(b) and directed SCO to waive any purported right SCO may claim to terminate SGI’s SVRX license or to require SGI to treat SGI code as subject to the confidentiality obligations or use restrictions of SGI’s SVRX license. (*Id.*) Novell’s October 7, 2003 letter was carefully crafted to address the relevant issue and did not seek to arbitrarily waive all of SCO’s possible claims. For example, the letter explicitly noted that Novell was not directing SCO to take any action with respect to claims that SGI incorporated proprietary UNIX code in Linux, a mistake that SGI subsequently corrected by removing the code at issue. (*Id.*; March 2010 Trial Tr. at 1951:20-1952:3.)

Novell waived SCO’s claims only insofar as it thought necessary to protect its interests. Chris Stone, Senior Vice President at Novell from 1997 to 1999 and Vice Chairman of Novell from 2002 to 2004, testified that when Novell acted to block SCO’s termination of IBM’s rights, it was concerned about Novell, Linux, and the open source movement, and that SCO’s actions were damaging to that process. (March 2010 Trial Tr. at 1613:22-1614:3.) Novell was not motivated by something said or done by IBM, nor was it motivated by IBM’s purchase of Novell

stock. (*Id.* at 1638:3-11.) Jack Messman, Novell's former CEO, testified that Novell's action to waive SCO's claims against IBM was unrelated to IBM's investment in Novell. (*Id.* at 2298:24-2299:19.)

b. SCO was Novell's Agent with Respect to the Management of SVRX Licenses, Which Included the IBM License.

That Novell acted properly is reinforced by the nature of the relationship between Novell and SCO. Section 4.16 created an agency relationship whereby SCO was to serve as Novell's agent to collect SVRX royalties. (March 2010 Trial Tr. at 1075:16-1078:22.) It was important to Novell to establish in the APA that the ongoing SVRX license business remained Novell's and that SCO must properly act as Novell's agent. (*Id.* at 2350:2-24.) Mr. Braham testified that if SCO did not do what it was supposed to do as Novell's agent, Novell could step in and take action on its own. (*Id.*) This agency ensured that SCO was empowered to work on behalf of Novell, but that SCO's authority was limited. (*Id.* at 2351:3-2352:15.)

Alok Mohan, CEO of Santa Cruz in 1995 when the APA was executed, characterized the deal with Novell in an e-mail to all SCO employees on September 19, 1995, explaining that SCO became "the owner of the UnixWare product line" and would "manage the licensing business for UNIX prior to UnixWare 1.0 (SVRx)." (Trial Ex. 163 at 1.) Ms. Madsen addressed this same e-mail in her testimony, as well as the 2002 Caldera (i.e., SCO) 10-K filing, in which the company referred to itself as an "administrative agent" for Novell and discussed the "agency agreement." (March 2010 Trial Tr. at 818:25-820:14; 824:4-19; Trial Exs. 163, D11.) Ms. Madsen acknowledged that the actual language of Sections 4.16(a) and (b) of the APA was consistent with Mr. Mohan's statement that SCO would "manage" the licensing business. (March 2010 Trial Tr. at 833:2-17.)

IBM's license was an SVRX license. (*Id.* at 1135:9-1136:6.) Mr. McBride confirmed this in his trial testimony. He admitted that he wrote a letter, dated June 11, 2003 (Trial Ex. J16), which referred to the IBM license as an "SVRX license." (March 2010 Trial Tr. at 1075:16-1078:22, 1135:9-1136:6.) In the same letter, Mr. McBride expressed his position that Novell did not have the waiver rights it claimed, not because the IBM license was something other than an

SVRX license, but because Amendment No. 2 purportedly applied to IBM as a royalty buyout customer. (Trial Ex. J16 at 2.) However, Amendment No. 2 was executed after the IBM buyout and addressed only future buyouts—it did not apply to the IBM buyout itself. (Trial Ex. N8 (Amendment No. 2, dated October 16, 1996); Trial Ex. 707 (IBM buyout, dated April 26, 1996).)

c. There is No Limitation in the Language of the APA Restricting Novell’s Rights to Binary Royalties.

In the APA, Novell was not limited in any way as to the direction it could give to Santa Cruz (and subsequently SCO) with respect to SVRX licenses. (March 2010 Trial Tr. at 2353:21-2354:8.) Mr. Braham testified that the language “sole discretion” in Section 4.16(b) was intentionally included to avoid doubt that Novell had “complete rights to control what happened with the UNIX business, the SVRX historical UNIX assets and technologies.” (*Id.*) If SCO did not act as it was supposed to as Novell’s agent, Novell could step in and take action itself. (*Id.* at 2354:21-2355:13.)

Mr. DeFazio testified that Section 4.16(b) was intended to “bulletproof” the significant ongoing financial interest Novell had in the SVRX royalty stream. (*Id.* at 2309:2-2311:6.) Mr. DeFazio testified that the intent was that “there would be no loop holes possible” for Santa Cruz to disrupt that royalty stream. (*Id.*) The rights retained by Novell ensured that Santa Cruz could not take actions to “mess up” Novell’s arrangement with its customers. (*Id.* at 2314:17-2315:2.)

The witnesses SCO presented to supply an alternate interpretation of Section 4.16(b) were not involved in the drafting of the APA.⁶ Furthermore, while Ed Chatlos, Senior Director

⁶ Duff Thompson was not on the Novell Board of Directors, nor was he present at the Novell Board meeting when the APA was approved. (*Id.* at 285:14-22; 302:12-303:9.) Ed Chatlos was not at the Novell Board of Directors meeting and did not know what was discussed. (*Id.* at 383:23-384:22.) Doug Michels, Executive Vice President and CTO of Santa Cruz Operation in 1995, had “no memory specific to any specific agreement,” “[did not] even know what Amendment No. 2 is,” had never read through the APA and had no comment on it. (*Id.* at 494:14; 511:15; 512:13-15.) Bill Broderick had no involvement with the drafting, negotiation, or approval of the APA or any of its amendments. (*Id.* at 621:16-25.) Ty Mattingly, a product manager and later Vice President of Corporate Development at Novell from 1992 to 1997, acknowledged that he did not “write or craft” any provisions of the APA, did not participate in any “wordsmithing,” and “didn’t make any contribution whatsoever to the terms or conditions” of the APA. (*Id.* at 714:14-25.) His “high-level strategy involvement” took place at
(Footnote continues on next page.)

of Strategic Relations at Novell from 1993 to 1995, believed that the term “SVRX License” referred only to binary sublicense agreements and associated product schedules, he acknowledged that Section 4.16(b) does not include the word binary or so limit the scope of the section. (*Id.* at 368:16-369:10; 372:3-7; 379:12-381:5.)

Burt Levine, in-house counsel for Novell from 1993 until he moved to Santa Cruz in late 1995 or early 1996, could not point to any language in Section 4.16(b), or anywhere else in the APA, limiting Novell’s rights under Section 4.16(b), nor could he recall any specific conversations with Mr. Chatlos concerning that point. (*Id.* at 519:17-520:14; 538:12-21.)

Mr. Broderick acknowledged that a SCO product manager wrote in a March 12, 1996 letter to Novell that Section 4.16(a) applied to source code royalties as well as binary royalties, and that there was nothing in the language of Section 4.16(b) to limit it to binary royalties. (Trial Ex. H6; March 2010 Trial Tr. at 651:5-655:7.)

Mr. Sabbath believed that the intent was for Section 4.16(b) to be limited in some way (March 2010 Trial Tr. at 906:7-23), but agreed that the APA “limits SCO’s rights to license SVRX code” and allows Novell to direct SCO to take certain actions with respect to SVRX licenses. (*Id.* at 935:21-936:4.) Mr. Sabbath agreed that Novell had at least a limited right with respect to Santa Cruz’s *source code* interests in UNIX as it pertained to SVRX. (*Id.* at 937:7-14.) Mr. Sabbath further understood and agreed that “sole discretion” means “Novell can really do it for any reason it wants,” and that Section 4.16(b) states “in Novell’s sole discretion” without saying anything about limitations. (*Id.* at 936:5-937:6.)

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least two to three weeks before the agreement was signed. (*Id.* at 715:1-6.) Alok Mohan was only involved at a high level and was not involved in writing or the “detail level of negotiations.” (*Id.* at 456:7-17.) Darl McBride was not involved in the negotiation or structural details of the APA. (*Id.* at 1054:5-12.) Ryan Tibbitts had “no involvement whatsoever” in the APA, Amendment No. 1, or Amendment No. 2. (*Id.* at 1847:16-24.)

d. Novell Retained Rights With Respect to the Software Agreements in Order to Protect its Royalty Stream.

Mr. Broderick explained that the Novell and Santa Cruz SVRX-related licensing agreements consisted of several pieces. The first of these was the “umbrella agreement” or “software agreement” that contained general terms and conditions. (*Id.* at 555:15-556:9.) Another layer was a “product license,” which licensed a particular software product and worked under the umbrella agreement. (*Id.* at 577:20-578:18.) The third layer was a sublicensing agreement granting distribution rights. (*Id.* at 579:13-581:12.) These three types of agreements worked together, as the software agreement and product license allowed the entity to create its flavor of UNIX, and the sublicensing agreement allowed the entity to distribute that flavor. (*Id.* at 583:4-17, 626:1-20.) The entity could not take a product license if it did not have an umbrella software agreement. (*Id.*)

Termination of an SVRX software agreement would necessarily terminate the product supplements and schedules thereunder. Thus, in order for Novell to protect its SVRX revenue stream, it retained rights with respect to all components of the SVRX licensing agreements. (Trial Ex. A1 § 4.16(a).)

John Maciaszek, a product manager at Novell from 1993 until he moved to SCO in late 1995 or early 1996, testified that the term “SVRX license” was created by and did not exist prior to the APA, and that there was no limitation as to what component of a “package of agreements” constituted an SVRX license. (March 2010 Trial Tr. at 1701:19-1702:7.)

Duff Thompson, Senior Vice President of Corporate Development and Strategic Relations at Novell from 1994 to late 1995 or early 1996, a member of the Santa Cruz Board of Directors until 2001, and a member of SCO’s Board of Directors until recently, acknowledged that the purpose of Section 4.16(b) was to make sure SCO did not do anything to upset Novell’s royalty stream from the SVRX licenses. (*Id.* at 251:8-15; 247:23-248:19.)

Mr. Michels agreed that Novell retained rights in order to prevent SCO from arbitrarily destroying the SVRX royalty revenue stream and that SCO was collecting royalties “on behalf of Novell.” (*Id.* at 495:9-496:17.)

2. Judge Kimball's Findings of Fact and Conclusions of Law.

Following the 2008 bench trial, Judge Kimball entered certain findings of fact and conclusions of law that were affirmed on appeal or not disturbed and are relevant to the issues presently before the Court. (Order, Dkt. No. 542.) On March 22, 2010, the parties stipulated and the Court agreed that the record from the 2008 bench trial would be admissible for purposes of deciding the claims presently before the Court. (March 2010 Trial Tr. at 1917:8-1918:3.)⁷

a. SCO's Duties Under the APA.

The following determinations were affirmed or left undisturbed by the Tenth Circuit on appeal. *The SCO Group*, 578 F.3d 1201, 1205.

“When Santa Cruz and Novell negotiated the APA, Santa Cruz did not have sufficient resources to purchase the entirety of Novell’s UNIX business. To bridge the gap, the parties agreed, under Section 1.2(b) of the APA, that Novell would continue to receive one hundred percent of the SVRX Royalties. Santa Cruz was to collect and pass through these royalties to Novell, and Novell, in turn, would pay Santa Cruz an administrative fee of five percent of the SVRX Royalties.” (Order at 4-5. Dkt. No. 542.)⁸

“Novell retained ‘all rights to the SVRX Royalties notwithstanding the transfer of the SVRX Licenses to [Santa Cruz].’ The APA further specifies that Santa Cruz ‘only has legal title and not equitable interest in such royalties within the meaning of Section 541(d) of the Bankruptcy Code.’ As this court has previously determined, the APA created an agency relationship between the parties with respect to SVRX Royalties.” (*Id.* at 5.)

“SCO has the right to enter into amendments of an SVRX License and new SVRX Licenses ‘as may be incidentally involved through its rights to sell and license UnixWare

⁷ Judge Kimball’s determinations that were affirmed or left undisturbed by the Tenth Circuit are binding as law of the case. (*See* Section II.D, *infra*.)

⁸ The Tenth Circuit affirmed this determination on appeal. *The SCO Group*, 578 F.3d at 1205 (“Although Novell may have initially intended ‘to sell the complete UNIX business,’ both parties agree that Santa Cruz was either unwilling or unable to commit sufficient financial resources to purchase the entire UNIX business outright. The deal was therefore structured so that Novell would retain a 95% interest in SVRX license royalties . . .”) (citations omitted).

software.’ The word incidentally is not defined in either the APA or its Amendments. Several witnesses, however, testified that the word incorporates the practice whereby the owner of Unix or UnixWare technology granted rights to the System V prior products.” (*Id.* at 7.)

b. UnixWare.

The following determinations were left undisturbed by the Tenth Circuit on appeal. *The SCO Group*, 578 F.3d 1201.

“UnixWare is the brand name for the more recent releases of the UNIX System V, Release 4 operating system developed and licensed in the early 1990s by Novell and its predecessors to the technology. The product was called UnixWare because it was to be a combination of the latest releases of System V source code and some components of Novell’s NetWare source code. The first releases of UnixWare contain all or virtually all of the technology included in the immediately prior System V releases, SVR4.2 and SVR4.2MP.” (Order at 7, Dkt. No. 542.)

“Novell sold the UnixWare business to Santa Cruz in the 1995 APA between Novell and Santa Cruz. The core members of Novell’s UNIX licensing group became employees of Santa Cruz. After the APA, Santa Cruz and then SCO developed and licensed SCO UnixWare. Under the 2001 transfer of assets from Santa Cruz to SCO, the core members of Santa Cruz’s UNIX licensing group became SCO employees.” (*Id.* at 7.)

“SCO released several subsequent releases of UnixWare, including multiple versions of each UnixWare 2 and UnixWare 7 [sic], which are the latest implementation of System V and the latest generation of UNIX SVR 4.2 with SVR 4.2MP. All of the releases of UnixWare subsequent to Novell’s transfer of the business are releases of System V. Witnesses testified that the commercially valuable technology from the prior versions is included in UnixWare, and UnixWare would not operate without its System V components. The current version of UnixWare supports the newest industry-standard hardware.” (*Id.* at 7-8.)

“Novell acknowledges that it is not entitled to royalties from any UnixWare licenses.” (*Id.* at 9.)

c. SCOSource Initiative.

The following determinations were left undisturbed by the Tenth Circuit on appeal. *The SCO Group*, 578 F.3d 1201.

“In late 2002, SCO formally created a new division known as SCOSource. In approximately January 2003, SCO launched its SCOSource program. The terms of the specific licenses SCO executed as part of the SCOSource program are addressed below. As a general matter, the SCOSource program was an effort to obtain license fees from Linux users based on SCO’s claims to UNIX intellectual property allegedly contained in Linux.” (Order at 13, Dkt. No. 542.)

“The parties disputed at trial whether the SCOSource program was primarily concerned with SVRX or with SCO UnixWare. In litigating its claims against IBM, Novell, and a variety of other parties, the only infringing code SCO has identified is SVRX code. SCO’s expert witness in the IBM litigation identified only UNIX SVR4 code in Linux. And SCO sued Novell for slander of title because Novell claimed ownership of the SVRX copyrights, not because it claimed ownership to the copyrights in SCO UnixWare. Many contemporaneous press releases, correspondence, and other material introduced at trial describe SCOSource as focused on SVRX infringement in Linux. SCO’s internal memoranda and presentations also describe SVRX as the ‘trunk’ from which SCOSource took its value, distinguishing SVRX from ‘branches’ such as SCO UnixWare.” (*Id.* at 13-14.)

“Nonetheless, there was also testimony and evidence at trial demonstrating that SCOSource was not solely focused on SVRX. In January 2003, when SCO formally announced the SCOSource program, SCO was still focused on licensing both SCO UnixWare and Openserver technology. In February 2003, SCO created a ‘SCO V for Linux Sales Guide.’ The guide repeatedly refers to SCO’s concern that ‘UnixWare’ and ‘OpenServer’ technology had been improperly used in Linux. The guide refers generally to ‘SCO System V,’ it did not specifically identify which technology comprised SCO System V. Also, in a December 2002 slide presentation, in describing the proposed ‘SCO System V for Linux’ deliverable, SCO

identified ‘SCO’s shared UNIX Libraries from Open Server and UnixWare for use with Linux.’” (*Id.* at 14.)

“There is competing evidence as to whether in the SCOsource program SCO was attempting to increase revenue based on the SVRX technology or to protect its latest releases of UnixWare and OpenServer from competition with Linux. The court can only conclude that both factors played a role in SCO’s determination to pursue the SCOsource licenses.” (*Id.* at 14.)

d. SCO’s Breach of the Amended APA in Connection with the 2003 Sun Microsystems Agreement.

The following determinations were affirmed by the Tenth Circuit on appeal. *The SCO Group*, 578 F.3d at 1225-27.

“In 1994, Sun entered into an SVRX License with Novell. In that agreement, Sun bought out its continuing royalty obligations regarding certain versions of SVRX. On February 25, 2003, SCO executed an agreement with Sun that purports ‘to amend and restate’ the 1994 SVRX License. SCO described its license with Sun as part of its SCOsource campaign.” (Order at 17, Dkt. 542.)

“Under the 2003 Sun Agreement, Sun paid SCO \$9,143,451. SCO did not pass through any of the Sun revenue to Novell. The 2003 Sun Agreement does not ascribe any particular prices to any of the specified rights granted in the Agreement. At trial, SCO did not establish distinct values for any of the various intellectual property rights conveyed in the 2003 Sun Agreement.” (*Id.*)

“Sun produces and markets a proprietary operating system known as ‘Solaris.’ Solaris is based on UNIX code versions listed in APA Schedule 1.1(a), Item VI—i.e., SVRX. Sun distributes Solaris without additional royalty obligations to Novell based on Sun’s rights under the 1994 Sun Agreement.” (*Id.* at 19.)

“The 1994 Sun Agreement had a 20-year confidentiality restriction prohibiting Sun from publicly disclosing the licensed source code. These confidentiality restrictions prevented Sun from publicly releasing or ‘open sourcing’ the Solaris source code.” (*Id.*)

“Section 8.1 of the 2003 Sun Agreement provides that ‘use, reproduction, distribution or disclosure of the Technology or Derivative Matter thereof under any licensing model now known or developed hereafter in Sun’s sole discretion, pursuant to the license granted by SCO herein, shall mean such Technology or Derivative Matter thereof is not Confidential Information to the extent that such Technology is licensed by Sun to a third party without a confidentiality obligation.’ In other words, Section 8.1 permits Sun to unilaterally remove any confidentiality restrictions governing the licensed UNIX code if ‘such Technology is licensed by Sun to a third party without a confidentiality obligation.’” (*Id.* at 20.)

“After entering into the 2003 Sun Agreement, Sun released an opensource version of its UNIX-based Solaris product, called ‘OpenSolaris.’ As its name suggests, OpenSolaris is based on Sun’s Solaris operating system, which is in turn based on Novell’s SVRX intellectual property. Absent the removal of the 1994 Sun Agreement’s confidentiality restrictions, Sun would not have been licensed to publicly release the OpenSolaris source code.” (*Id.*)

“The evidence presented at trial established that the 2003 Sun Agreement conveyed substantial rights to the SVRX intellectual property retained by Novell because of Sun’s ability to open source Solaris.” (*Id.* at 21.)

“The 2003 Sun Agreement increases Sun’s rights to at least 30 versions of SVRX products provided in Item VI of Schedule 1.1(a) of the APA and gives Sun broad rights to several versions of SVRX. The 2003 Sun Agreement is an SVRX License.” (*Id.* at 34.)

“Section 8.1 of the Sun Agreement, however, lifts the confidentiality provisions with respect to 30 versions of SVRX technology granted to Sun under its 1994 Buy-out Agreement with Novell.” (*Id.*)

“Under Section 4.16 of the amended APA, SCO can only amend an SVRX license if it is done incidentally to its licensing of UnixWare. Also, Section B of Amendment No. 2 to the APA provides that before entering into any potential transaction with an SVRX licensee which ‘concerns’ a buy-out of any such licensee’s royalty obligations, SCO must obtain Novell’s consent. This provision requires either party who even ‘become[s] aware of any such potential

transaction' to immediately notify the other in writing. The provision further requires that any negotiations with the licensee be attended by both parties, and that both parties consent to any such transaction. There are no exceptions to this provision.” (*Id.* at 34-35.)

“The 2003 Sun Agreement specifically states that it ‘amends and restates’ Sun’s 1994 SVRX buy-out agreement with Novell. SCO has no authority to enter such an agreement unless it is incidentally involved in the licensing of UnixWare.” (*Id.* at 35.)

“The court concludes that the release of confidentiality requirements in Section 8.1 of the 2003 Sun Agreement is not merely incidental to a UnixWare license. The provision had significant independent value to Sun as it allowed Sun to opensource its Solaris UNIX-based product. While several of the provisions in the Agreement focus on UnixWare and specific device drivers, the amendment with respect to confidentiality relates to the same technology licensed in the 1994 Buy-out Agreement and had significant independent value to Sun apart from a license to the newest versions of UnixWare.” (*Id.*)

“There is no dispute that Sun’s 1994 Agreement with Novell was a ‘buy-out’ of Sun’s SVRX royalty obligations as that term is used in Amendment No. 2. Sun’s 2003 Agreement explicitly acknowledges that it is intended to ‘amend and restate’ the 1994 buy-out agreement, including expansion of Sun’s existing license rights to permit opensource licensing of SVRX code. The Court concludes that Sun’s 2003 Agreement License, therefore, ‘concerns’ a buy-out, and SCO was required to follow the additional restrictions imposed by Amendment No. 2 on transactions that concern buy-outs. SCO did not comply with these terms. The Court thus concludes and declares that SCO was without authority to enter into the 2003 Sun Agreement under Amendment 2, Section B, of the APA.” (*Id.* at 36.)

“The Court concludes that SCO breached its fiduciary duties to Novell by failing to notify Novell and account for and remit the revenue it received from Sun as a result of modifying the confidentiality provisions of Sun’s SVRX buy-out agreement with Novell.” (*Id.* at 38.)

“Novell held equitable title to the SVRX Royalties under the APA. SCO’s failure to pass through to Novell the SVRX Royalties due under the Sun Agreement was a wrongful act

inconsistent with Novell's rights. The Court concludes that Novell has established SCO's conversion of the revenues due under the 2003 Sun Agreement." (*Id.*)

"SCO was unjustly enriched by retention of the revenue under the Sun Agreement and Novell is entitled to restitution. . . . Here, SCO was unjustly enriched by retaining the revenues Sun agreed to pay to relax and amend the confidentiality provisions of the 1994 Agreement." (*Id.* at 38-39.)

"The court, therefore, concludes that Novell is entitled to the revenues paid by Sun under the 2003 Sun Agreement attributable to the release of the SVRX confidentiality provision in the 1994 Agreement." (*Id.* at 41.)

"Under the 2003 Sun Agreement, SCO received from Sun a total amount of \$9,143,451. The court concludes that the release provision in Section 12 of the Sun Agreement is worth an equivalent amount to the similar release provision in the Microsoft Agreement, or \$1.5 million. The remaining portions of the Agreement is divided between the UnixWare license, the associated UnixWare and OpenServer drivers, and the release of the confidentiality provisions contained in the 1994 Agreement. Because SCO bears the burden of allocation on this issue and the law recognizes that the court is to resolve every doubt against the agent and in favor of the principal, the court divides the remaining portions of the Agreement equally. Therefore, Novell is entitled to one-third of \$7,643,451, or \$2,547,817 as revenues paid by Sun under the 2003 Sun Agreement attributable to the release of the SVRX confidentiality provision in the 1994 Agreement." (*Id.* at 41-42.)

3. Relevant Testimony from April/May 2008 Bench Trial.

The following relevant evidence was presented at the 2008 bench trial:

a. 2003 Sun Microsystems Agreement.

In 2003, Mr. LaSala contacted SCO to request, *inter alia*, a copy of the 2003 Sun Microsystems Agreement to determine if SCO was complying with Section 4.16(b) of the APA. (April-May 2008 Bench Trial Tr. at 46:19-49:4; 53:14-55:7; 58:15-62:5.) SCO did not comply with that request. Indeed, prior to producing the Sun Microsystems Agreement in discovery in

this litigation, SCO never provided Novell with a copy of that agreement. (*Id.* at 63:19-64:7.) SCO also did not comply with Novell's request to audit SCO's compliance with the APA as it related to the Sun Microsystems Agreement. (*Id.*)

b. SCO's Duties with Respect to SVRX Licenses.

Mr. Broderick was responsible for UNIX contracts and licensing at Novell in 1995. (April-May 2008 Bench Trial Tr. at 424:21-425:7.) He had similar responsibilities when he subsequently moved over to Santa Cruz following the APA transaction. (*Id.* at 424:1-20; 426:13-20.) Mr. Broderick testified that during the transition of certain UNIX and UnixWare assets from Novell to SCO in 1995, the transition team was told that Novell was retaining the ongoing royalty stream from SVRX products and that Santa Cruz could not do anything to jeopardize that royalty stream. (*Id.* at 437:20-439:25.) Mr. Broderick also testified that Santa Cruz could not enter into new licenses for SVRX products, except to the extent that such licenses were incidental to a UnixWare license. (*Id.*)

IV. CONCLUSIONS OF LAW

A. SCO's Claim for Specific Performance.

SCO claims it is entitled to specific performance of the amended APA and seeks an order requiring Novell now to transfer the UNIX copyrights to SCO. SCO's claim is that if the amended APA was intended to transfer the copyrights but this intent was not effectuated due to Novell's failure to execute the required transfer documents, then "SCO is entitled to an order directing Novell to execute documents (and take any other actions) necessary to transfer" the copyrights to SCO. (Second Am. Compl. ¶¶ 103, 104, 108 Dkt. No. 96.) SCO has not carried its burden of proving that the amended APA obligates Novell to transfer the UNIX and UnixWare copyrights extant as of the date of the APA to SCO.

First, the jury has now found that the amended APA did not transfer ownership of the UNIX copyrights to SCO, thus confirming that the intent of the parties to the amended APA was not to transfer the copyrights and that the copyrights were not required for SCO to exercise its rights under the APA. There can be no question that the jury considered whether the UNIX

copyrights were “required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies,” especially given that the language of Amendment No. 2 was thoroughly presented by both sides at trial.⁹ The jury’s verdict is a clear determination that the UNIX copyrights were not required for SCO to exercise its rights under the APA, and there is no basis for disregarding that verdict. Based on the jury’s verdict alone, SCO’s specific performance claim must fail.

Second, SCO failed to demonstrate at trial that it required ownership of the UNIX copyrights at the time the APA was signed, or that it presently requires ownership to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies. The evidence shows that SCO is fully capable of running its software business without the UNIX copyrights—indeed, SCO (or Santa Cruz) did so since the inception of the APA. While SCO has argued that it needs the UNIX copyrights to try to effectuate its SCOSource licensing program, such a business was never contemplated by the APA, which expressly forbids SCO from entering into new SVRX licenses except as may be incidental to licensing UnixWare. Furthermore, SCO’s own expert has testified that the SCOSource program is “dead,” removing any purported present need for the copyrights in connection with that program.

In ruling on SCO’s claim for specific performance, the Court should interpret unambiguous terms of the APA and related agreements as a matter of law. (*See* Section I.A.1-2, *supra*.) The Tenth Circuit has laid out the “basic facts” underlying “Novell’s transfer of certain UNIX-related assets to Santa Cruz” as part of its background section, and elsewhere assumed basic facts relating to the clear meaning of the agreement. *The SCO Group*, 578 F.3d at 1204-1205, 1219. Judge Kimball likewise outlined the basic undisputed facts relating to the APA and contemporaneous agreements in his summary judgment ruling. (Order at 3-9, Dkt. No. 377.) These portions of Judge Kimball’s ruling have not been appealed or overruled.

⁹ Novell did not argue at trial that even if copyrights were “required” under Amendment No. 2 they did not transfer because no actual instrument of transfer was executed.

1. The Jury has Decided that the Parties Did Not Intend to Transfer the UNIX Copyrights and that the Copyrights Were Not “Required” for SCO to Exercise its Rights Under the APA.

SCO’s claim for specific performance must be denied because transferring the copyrights would contradict the jury’s unequivocal finding. SCO brought its alternative claim for specific performance “in the event that the Court finds that the amended APA failed to transfer copyrights notwithstanding the parties’ intent.” (SCO’s Mem. in Opp’n to Novell’s Mot. Summ. J. on SCO’s First Claim for Slander of Title and Third Claim for Specific Performance at 74, Dkt. No. 306 (emphasis added)(filed under seal).) In other words, in order to prevail on this claim, SCO must prove that the parties intended to transfer the copyrights, but the amended APA failed to do so because Novell did not execute the required documentation.

The jury has now considered the evidence, including evidence of the parties’ intent, and has determined that the APA did not transfer ownership of the UNIX and UnixWare copyrights. (Special Verdict Form at 1, Dkt. No. 846.) This Court should not disregard that verdict and now order Novell to transfer the copyrights to SCO.

In deciding the copyright ownership issue, the jury necessarily considered and rejected SCO’s evidence and arguments that (1) the parties intended to transfer the copyrights, and (2) the copyrights are “required” for SCO to exercise its rights under the APA. The only ambiguous contractual language presented to the jury for interpretation was “what copyrights are ‘required’ for SCO to exercise its rights” with respect to the acquisition of UNIX and UnixWare technologies. *The SCO Group*, 578 F.3d at 1210; (Trial Ex. N8 (Amendment 2).) The only credible testimony regarding the intent of Amendment No. 2 came from Mr. Tolonen and Ms. Amadia, both of whom confirmed that the amendment was not intended to transfer copyrights. (March 2010 Trial Tr. at 2119:21-2120:6; 2123:2-13; 2036:15-22; 2038:1-3.) Mr. Tolonen approved and executed Amendment No. 2 for Novell (*id.* at 2030:3-5) and Ms. Amadia negotiated and drafted it. (*Id.* at 2105:18-25.) By contrast, the only SCO witnesses who testified regarding Amendment No. 2 either offered contradictory testimony regarding its

meaning (Mr. Sabbath) or had insufficient knowledge of the amendment to offer meaningful testimony (Ms. Madsen).¹⁰

The parties did not present to the jury the alternative argument that the copyrights did not transfer because Novell did not execute the required documents.¹¹ Novell asserted in its closing argument that the APA did not transfer the copyrights because (1) the original APA expressly excluded the UNIX copyrights from the transfer (*Id.* at 2678:5-2780:23); (2) Amendment No. 2 was not intended to transfer the copyrights, as confirmed by Ms. Amadia's testimony and Novell's rejection of Santa Cruz's first version of Amendment No. 2 (*id.* at 2684:11-2699:5); and (3) Amendment No. 2 did not transfer the UNIX copyrights because they were not "required" for Santa Cruz to exercise its rights with respect to acquisition of the UNIX and UnixWare technologies (*id.* at 2699:6-2703:15). Novell did not argue that even if the copyrights were "required," the copyrights did not transfer due to a lack of sufficient documentation.

Similarly, SCO focused on whether Amendment No. 2 transferred the copyrights, and *not* on whether Novell executed an additional instrument transferring the copyrights. (*Id.* at 2632:24-2636:25.) SCO asserted that Amendment No. 2 is "the heart of this case" and that "[w]ith Amendment No. 2, it is clear that those copyrights were transferred." (*Id.* at 2634:6-8.) SCO emphasized to the jury that Ms. Amadia admitted that "if there are copyrights that are required for SCO to exercise its rights," they were transferred under the final version of Amendment No. 2. (*Id.* at 2178:15-18.) In other words, SCO contended that if the copyrights

¹⁰ Mr. Sabbath's testimony on the subject was contradictory. On the one hand, he testified that Amendment No. 2 was intended to confirm the transfer of copyrights to Santa Cruz under the APA. (March 2010 Trial Tr. at 910:16-911:10.) Yet, in an earlier declaration submitted by Mr. Sabbath, he acknowledged that "much of the UNIX System V intellectual property" was not transferred. (*Id.* at 927:4-13; 928:1-18.) As for Ms. Madsen, she admitted that she was not the author of Amendment No. 2 and had no specific recollection of discussions with Mr. Sabbath regarding the amendment. (*Id.* at 802:17-22.) She offered no clear testimony indicating that Amendment No. 2 was intended to revise the APA to confirm that copyrights had been transferred.

¹¹ Prior to closing arguments, Novell reserved the right to argue that, as a matter of contract law, the APA "was a promise to assign, not an assignment," and that "there was no subsequent evidence of an actual transfer" of copyrights following Amendment No. 2. (*Id.* at 2599:11-2601:20.) Novell did not, however, make that argument during its closing.

were “required,” then they were *automatically* transferred to SCO. This was the critical issue that was argued and presented to the jury. Thus, the jury verdict that the copyrights did not transfer to SCO under Amendment No. 2 necessarily means that the jury determined that the copyrights were not “required” for SCO to exercise its rights under the APA.

Under issue preclusion principles as applied by the Tenth Circuit, this Court must follow the jury’s determination. *Ag. Servs. of Am. v. Nielsen*, 231 F.3d 726, 732-733 (10th Cir. 2000) (district court erred in failing to apply issue preclusion to factual findings implicit in jury verdict of no conversion when it considered equitable claims in same case), *reh’g denied*, 235 F.3d 559 (10th Cir. 2000). In *Ag. Servs.*, the Tenth Circuit found that the “true test is whether the jury verdict by necessary implication reflects the resolution of a common factual issue.” If so, “the district court may not ignore that determination, and it is immaterial whether, as here, the district court is considering equitable claims with elements different from those of the legal claims which the jury had decided.” *Id.* (emphasis supplied). The jury has decided, by necessary implication, that the parties did not intend to transfer the copyrights, and that they were not required for SCO to exercise its rights under the APA. The Court may not ignore the jury’s factual findings on these issues. The Court must therefore deny SCO’s claim for specific performance.

2. The Evidence Shows that the Copyrights are Not “Required” for SCO to Exercise its Rights Under the APA.

Because the jury has decided the copyrights are not “required” for SCO to exercise its rights, the Court need not and should not independently consider any of the evidence presented at trial on this issue. Even if it were to do so, however, the evidence shows that SCO’s claim fails independently of the jury’s verdict. SCO claims it is entitled to “compel the transfer of copyrights ‘required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.’” (SCO’s Trial Brief at 17, Dkt. No. 742.) But SCO has presented no evidence at all as to which specific copyrights it requires to exercise its rights under the APA. In contrast to the rejected draft of Amendment No. 2 that Mr. Sabbath sent to Ms. Amadia with proposed language specifying that Santa Cruz had acquired copyrights “pertaining to the UNIX

and UnixWare technologies,” the agreed-upon form of Amendment No. 2 did not specify which, if any, copyrights SCO required. In order to prevail on its claim for specific performance, SCO must point to “contractual terms which are sufficiently definite to enable the court to know what it is to enforce.” *Tamarind Lithography Workshop, Inc.*, 143 Cal. App. 3d at 575. Because there is no evidence as to which specific copyrights SCO must own to exercise its rights to the UNIX and UnixWare technologies, SCO’s claim to the UNIX copyrights must fail.

SCO has also failed to prove that the language of the APA, as amended, requires Novell to transfer ownership of the UNIX copyrights. Amendment No. 2 did not modify the schedule of included assets, but rather confirmed Santa Cruz’s right to make use of the UNIX software in developing the UnixWare product. The UNIX copyrights never were included in the list of transferred assets. Ms. Amadia testified that, if she were drafting an amendment to the asset purchase agreement under which the copyrights transferred, she would have amended Schedule 1.1(a), the list of included assets, not Schedule 1.1(b). (March 2010 Trial Tr. at 2160:21-24.) Mr. Tolonen likewise testified that the easy way to transfer the copyrights would have been to include them on the schedule of included assets. (*Id.* at 2037:18-25.) This did not occur. Mr. Tolonen and Ms. Amadia both confirmed that the “required for” language in Amendment No. 2 was not intended to transfer the copyrights. (*Id.* at 2036:15-22; 2038:1-3; 2119:21-2120:6; 2123:2-13.) There is no evidence that at the time Amendment No. 2 was signed, SCO required ownership of any specific copyrights to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies under the APA.

SCO may contend that the “license back” contemplated by Section 1.6 of the APA and implemented by the TLA implies that Novell transferred the UNIX copyrights to Santa Cruz, because this license allegedly would have been unnecessary if Novell retained ownership of the copyrights. However, these provisions confer only a license to the “Assets,” as defined in Section 1.1 of the APA and identified on Schedule 1.1(a), which *do not include* the UNIX copyrights. The TLA by definition does not grant Novell a license to any of the Excluded Assets set forth on Schedule 1.1(b), which Novell retained under the APA. Moreover, trial testimony

demonstrates that one purpose of the license-back provision and the TLA was to give Novell a license to additional code to be developed by SCO. As Mr. Sabbath testified, under the APA, SCO would own the copyrights in the new code it developed, so a license would grant Novell the right to use post-APA SCO-developed code. And because the APA transferred ownership of the UNIX source code itself to Santa Cruz, Novell could have benefited from a license back to that code even without having transferred the copyrights to that code. Thus, the license-back provision and the TLA are not inconsistent with Novell's retention of the UNIX copyrights.

SCO also does not need ownership of the UNIX copyrights to protect *its own* intellectual property rights in the code it created. Both Mr. Sabbath and Ms. Amadia testified that Santa Cruz (and thus subsequently SCO) would own the copyrights to the new code it created and could use those copyrights to protect that code against infringement. (March 2010 Trial Tr. at 933:2-7; 2157:21-22.) Mr. Sabbath also acknowledged that Santa Cruz (and subsequently SCO) would not need anything more than a license to create derivative works based on the UNIX source code. (*Id.* at 939:3-18.) As the owner of the copyrights in its own software, SCO was able to protect itself against infringement of that code, and did not require ownership of the UNIX copyrights to do so.

Both Mr. Tibbitts and Mr. McBride admitted at trial that the UNIX copyrights are not required to run SCO's product business. (*Id.* at 1850:20-1851:18; 1225:2-1226:10.) Mr. McBride asserted that the copyrights were needed for SCO's new business of licensing (*id.* at 1226:1-10), but SCO presented no evidence that suing Linux users was part of the business contemplated by the APA. SCO was not entitled under the APA to enter into new SVRX licenses, except as may be incidental to its rights to sell and license UnixWare. (Trial Ex. A1, § 4.16(b) (APA).) Thus, SCOSource was not part of the business Santa Cruz acquired from Novell under the APA. Moreover, SCO's own expert testified that the market for SCOSource is "dead," and that SCO could not now revive its licensing business. (March 2010 Trial Tr. at 1270:9-10.) Thus, even if the APA had granted SCO the right to operate the SCOSource

licensing campaign, it is impossible for SCO to now credibly assert that ownership of the UNIX copyrights today is required for it to exercise its rights under the APA.

SCO may claim it needs the copyrights because the APA transferred to SCO “all of [Novell’s] claims arising after the Closing Date against any parties relating to any right, property or asset included in the Business.” (Trial. Ex. A1, Schedule 1.1(a).) But SCO cannot prevail on such a theory because it has presented no evidence that Novell has any “claims” that SCO is entitled to pursue. The only evidence SCO presented on this point was testimony that the assets that were actually sold to Santa Cruz included “legal claims that it would have against parties that were connected with the business.” (March 2010 Trial Tr. at 248:20-249:23 (Duff Thompson).) However, SCO did not carry its burden of establishing that there were any such Novell “legal claims.” Moreover, Amendment No. 2 refers to copyrights “required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies,” but SCO made no showing that such “rights” include Novell’s “legal claims.”

SCO’s argument during the 2008 bench trial that SCOsource licenses are UnixWare licenses provides further evidence that ownership of the UNIX copyrights is not required. At the bench trial, SCO argued that a SCOsource license was essentially a UnixWare license. (April-May 2008 Bench Trial Tr. at 32:9.) Mr. Sontag testified that he understood SCO did not need Novell’s approval to execute a UnixWare license. (*Id.* at 181:9-13.) Judge Kimball specifically found that SCO can enter into new SVRX Licenses if they are incidentally involved in the selling and licensing of UnixWare. (Order at 6, 7, 27, Dkt. No. 542.) If SCO is correct that SCOsource licenses are UnixWare licenses that only incidentally include an SVRX license, then ownership of the UNIX copyrights would not be required to execute such UnixWare licenses.

In sum, not only has SCO failed to carry its burden of showing that it has a continuing right to acquire ownership of the UNIX copyrights, the evidence actually contradicts such an argument.

B. Novell's Claim for Declaratory Relief Regarding the Scope of Its Waiver Rights Under Section 4.16 of APA.

Novell seeks declaratory relief clarifying its right under Section 4.16(b) of the APA to direct SCO to waive claims against IBM and other SVRX licensees, its right to waive such claims on SCO's behalf, and SCO's obligation to recognize such a waiver. As discussed below, the evidence produced at trial confirms Novell's reading of the scope of its waiver rights under Section 4.16(b). Novell therefore requests the following declaration:

Novell was entitled to direct SCO to waive claims against IBM, Sequent, SGI, and other SVRX licensees; Novell was entitled to waive such claims on SCO's behalf; and SCO was obligated to recognize such a waiver.

Novell was entitled to waive SCO's claims (1) to terminate IBM's SVRX license or to revoke any rights thereunder and (2) to require IBM to treat code developed by IBM or licensed by IBM from a third party that IBM incorporated in its UNIX variant but which itself does not contain proprietary UNIX code supplied by AT&T under the license agreement between AT&T and IBM as subject to the confidentiality obligations or use restrictions of IBM's SVRX license.

Novell was entitled to waive SCO's claim to require Sequent (or IBM as its successor) to treat code developed by Sequent or licensed by Sequent from a third party that Sequent incorporated in its UNIX variant but which itself does not contain proprietary UNIX code supplied by AT&T under the license agreement between AT&T and Sequent as subject to the confidentiality obligations or use restrictions of Sequent's SVRX license.

Novell was entitled to waive SCO's claims (1) to terminate SGI's SVRX license or to revoke any rights thereunder and (2) to require SGI to treat code developed by SGI or licensed by SGI from a third party that SGI incorporated in its UNIX variant but which itself does not contain proprietary UNIX code supplied by AT&T under the license agreement between AT&T and SGI as subject to the confidentiality obligations or use restrictions of SGI's SVRX license.

1. Novell's Waiver Rights are as Broad as Expressly Stated in Section 4.16.

The express language of Section 4.16(b) establishes that Novell has the authority to direct SCO to amend, supplement, modify, or waive any right under any SVRX License. Should SCO fail to take such action as directed, Novell is authorized to undertake the action on SCO's behalf.

As Judge Kimball found, Section 4.16(b) created an agency relationship whereby SCO was acting as Novell's agent to collect SVRX royalties. (Order at 90, Dkt. No. 377 ("SCO does not dispute the agency relationship created by the APA.")) Mr. McBride conceded this at trial. (March 2010 Trial Tr. at 1075:16-1078:22.) Novell's witnesses testified that the broad waiver rights were intended to protect Novell's interest in the SVRX royalty stream. (*Id.* at 2353:21-2354:8; 2354:21-2355:13; 2309:2-2311:6.) Specifically, Mr. Braham testified that the "sole discretion" language was purposefully placed in the APA to avoid any doubt that Novell had "complete rights to control what happened with the UNIX business." (*Id.* at 2353:21-2354:8.) If SCO did not act as it was supposed to as Novell's agent, Novell could step in and do it itself. Mr. DeFazio likewise testified, and Mr. Thompson and Mr. Michels acknowledged, that Section 4.16(b) was intended to "bulletproof" Novell's financial interest in the SVRX royalty stream. (*Id.* at 2309:2-2311:6.) Mr. Sabbath conceded that "sole discretion" means that Novell can exercise its waiver for any reason. (*Id.* at 936:5-937:6.)

2. "SVRX Licenses" are Not Limited to Binary License Agreements.

SCO has argued that Section 4.16(b)'s reference to "SVRX Licenses" relates only to binary royalty income streams.¹² However, the evidence shows that the term "SVRX License" is not so limited and includes source code rights under the "umbrella" software agreements. Indeed, Mr. McBride admitted that the IBM license at issue was an SVRX License. (March 2010 Trial Tr. at 1135:9-1136:6.) Messrs. Chatlos, Levine, and Broderick all conceded that there was nothing in the language of Section 4.16(b) that limited it to binary royalties. (*Id.* at 368:16-369:10; 379:12-381:5; 519:17-520:14; 538:12-21; 651:5-655:7; *see also* Trial Ex. H6.) Mr. Chatlos testified vaguely as to his belief that "SVRX Licenses" were limited to binary license agreements, but acknowledged that Section 4.16(b) does not include the term "binary."

¹² As Mr. Broderick explained, binary code is software in a computer-readable form that cannot be modified, only used. (March 2010 Trial Tr. at 581:3-12.) A sublicensing agreement gives the right to distribute binary code, but not to modify that code. (*Id.* at 580:23-581:12.) By contrast, source code is software in a form that can be modified, and a source code license gives the right to modify the code to create a specific "flavor." (*Id.* at 543:15-544:5.)

(March 2010 Trial Tr. at 368:16-369:10; 379:12-381:5.) Moreover, none of SCO's witnesses who testified that Section 4.16(b) was intended to be limited in some way had any involvement in the drafting of the APA.

Furthermore, by specifically identifying source code fees as a type of SVRX Royalty, Amendment No. 1 makes clear that the term "SVRX License" encompasses the software agreements covering source code rights. Under Amendment No. 1, certain exceptions were created to Novell's general entitlement to SVRX Royalties under Section 4.16(a). (Trial Ex. T5 at 3.) SCO was permitted to retain certain categories of SVRX Royalties, including royalties from "source code right to use fees under existing SVRX Licenses from the licensing of additional CPUs and from the distribution by SCO of additional source code copies." (*Id.*) By identifying "source code right to use fees under existing SVRX Licenses" as a type of SVRX Royalty, Amendment No. 1 confirms that the term "SVRX License" includes the software agreements covering source code rights.

The Tenth Circuit stated that if the term "SVRX License" was interpreted to mean the entire set of SVRX agreements, it might allow Novell to divest SCO of "its exclusive and undisputed ownership rights in the underlying source code of UNIX." *The SCO Group*, 578 F.3d at 1224. The Tenth Circuit remanded this issue for trial. Following the jury's verdict, it is now established that SCO does not have "exclusive and undisputed ownership rights" in UNIX. The jury found that the APA did not transfer the UNIX copyrights to SCO. Nor did SCO have exclusive rights to UNIX—it had the right to use the UNIX code in the context of developing UnixWare. Novell's exercise of its waiver rights under Section 4.16(b) did not divest SCO of its ability to use UNIX in developing UnixWare. While SCO did acquire ownership of the specific copies of UNIX source code in Novell's possession at the time of the APA, Novell's exercise of its waiver rights did not impact SCO's ownership of those source code copies. Accordingly, the broad (and proper) interpretation of "SVRX License" under Section 4.16 does not divest SCO of any ownership rights it acquired under the APA.

C. SCO's Claim for Breach of the Implied Covenant of Good Faith and Fair Dealing.

SCO contends that Novell breached the implied covenant of good faith and fair dealing under the APA by directing SCO to waive certain claims it had asserted against IBM, Sequent, and SGI.

To establish a claim for breach of the implied covenant of good faith, SCO must prove: (1) the parties entered into a contract; (2) SCO did all, or substantially all, of the significant things that the contract required it to do or it was excused from having to do those things; (3) all conditions required for performance occurred; (4) Novell unfairly interfered with SCO's right to receive the benefits of the contract; and (5) SCO was harmed by Novell's conduct. CACI 325; *see also Kransco v. Am. Empire Surplus Lines Ins. Co.*, 23 Cal. 4th 390, 400 (2000). SCO has failed to show it substantially performed under the contract¹³ or that it was harmed by Novell's conduct.¹⁴ SCO has also failed to show that Novell unfairly interfered with SCO's right to receive the benefits of the APA.

1. Novell's Conduct was Expressly Authorized by the APA.

It is "universally recognized that the scope of conduct prohibited by the covenant of good faith is circumscribed by the purpose and express terms of the contract." *The SCO Group*, 578 F.3d at 1225 (quotations omitted). As the California Supreme Court recently confirmed, while "all contracts impose a duty of good faith and fair dealing" and "the covenant particularly applies 'when one party is invested with a discretionary power affecting the rights of another,'" "the implied covenant does not trump an agreement's express language." *Steiner v. Thexton*, 48 Cal. 4th 411, 419 (2010) (citing *Carma Developers (Cal.), Inc. v. Marathon Dev. Cal. Inc.*, 2 Cal. 4th 342, 373-74 (1992)) (emphasis in original). The general rule providing for the covenant of good faith "is plainly subject to the exception that the parties may, by express

¹³ SCO's failure to plead or prove that it substantially performed, or was excused from performing, under the APA is addressed separately below in Section II.D because it applies equally to SCO's claim for specific performance.

¹⁴ SCO presented no evidence whatsoever at trial of damages relating to Novell's alleged breach of the implied covenant. SCO's claim fails for this reason alone.

provisions of the contract, grant the right to engage in the very acts and conduct which would otherwise have been forbidden by an implied covenant of good faith and fair dealing.” *Id.* (quoting *Carma Developers*, 2. Cal. 4th at 374.) This exception applies here.

SCO argues that Novell’s waiver of SCO’s claims against IBM, Sequent, and SGI was outside the scope of Novell’s contractual authority. The evidence shows, however, that Novell had the express right under the APA to direct SCO to waive its claims against IBM, Sequent, and SGI.¹⁵ As detailed above, under Section 4.16(b) of the APA, Novell retained the sole discretion to direct SCO to waive any rights under any SVRX licenses. Judge Kimball found, and Mr. McBride also acknowledged at trial, that Section 4.16(b) created an agency relationship whereby SCO was acting as Novell’s agent (with fiduciary duties) to collect SVRX royalties. (Order at 90. Dkt. No. 377; March 2010 Trial Tr. at 1075:16-1078:22.) Mr. McBride further conceded that IBM’s license was an SVRX license. (March 2010 Trial Tr. at 1135:9-1136:6; Trial Ex. J16.) The “sole discretion” language was intentionally placed in the APA and was intended to “bulletproof” Novell’s financial interest in the SVRX royalty stream. (March 2010 Trial Tr. at 2309:2-2311:6.) If SCO did not act as it was supposed to as Novell’s agent, Novell could step in and do so itself.

Because the scope of Novell’s waiver rights under Section 4.16(b) is clear and SCO was to act as Novell’s agent to collect royalties, the express language controls and cannot be contradicted by the implied covenant. *Steiner*, 48 Cal. 4th at 411 (“the *implied* covenant does not trump an agreement’s *express* language”) (emphasis in original). Because Novell was

¹⁵ The particular waivers in question (IBM, Sequent, SGI) do not run afoul of the language in Amendment No. 2 stating that the APA “does not give Novell the right to increase any SVRX licensee’s rights to SVRX code, nor does it give Novell the right to grant new SVRX source code licenses.” (Trial Ex. N8 at 1, part B.5.) Novell was not attempting to give IBM any additional rights to SVRX code; it was waiving SCO’s attempt to impose the license’s confidentiality provision on code IBM had developed separate from UNIX code. Moreover, the language from Amendment No. 2 recited above specifically applies to the handling of future buyouts, and there is no evidence that the language was intended to limit Novell’s rights under Section 4.16 more generally.

exercising its discretion within the APA's express grant of authority, its conduct cannot constitute a breach of the implied covenant of good faith and fair dealing.

2. SCO has Failed to Show that Novell Acted in Bad Faith.

Even if, *arguendo*, the APA did not expressly authorize Novell's conduct, SCO must prove that Novell acted unfairly or in bad faith. SCO must show that Novell's conduct "demonstrates a failure or refusal to discharge contractual responsibilities, prompted not by an honest mistake, bad judgment or negligence but rather by a conscious and deliberate act." *Chateau Chamberay Homeowners Ass'n. v. Associated Int'l Ins. Co.*, 90 Cal. App. 4th 335, 345-346 (Ct. App. 2001). SCO has presented no evidence that Novell acted in bad faith. Rather, the evidence shows that Novell's exercise of its waiver rights was a good-faith exercise of discretion. Accordingly, SCO has not met its burden on this claim.

The evidence shows that Novell acted carefully and in good faith with respect to actions it took under Section 4.16(b). As Mr. LaSala's testimony shows, Novell took a careful, step-by-step approach. (March 2010 Trial Tr. at 1908:2-17; 1909:19-1910:8; 1911:1-1912:22.) Mr. Jacobs, Novell's outside counsel, told IBM's counsel that Novell would only waive SCO's claims if that was a correct interpretation of the documents. (*Id.* at 1909:19-1910:4.) Novell believed it was permitted under Section 4.16(b) to protect its economic interests by directing SCO not to terminate IBM's SVRX license. The letters themselves also demonstrate that Novell exercised its discretion in good faith, including by carefully explaining its position and giving SCO the opportunity to waive particular claims. (*Id.* at 1930:5-1931:22; Trial Exs. F16; 675; F21; 691; G21.) Mr. Stone and Mr. Messman both testified that Novell exercised its right to take action on behalf of SCO not because of any business arrangement with IBM, but because Novell believed that SCO's threats to terminate the agreement with IBM implicated Novell's interest. (March 2010 Trial Tr. at 1613:22-1614:3; 1638:3-11; 2298:24-2299:19.)

D. SCO's Failure to Plead or Show Substantial Performance of its Obligations Under the APA.

As part of its claims for specific performance and for breach of the implied covenant of good faith and fair dealing, SCO must show that it substantially performed its own obligations

under the APA. CACI 325 (to establish breach of the implied covenant, SCO must prove, among other things, that it “did all, or substantially all of the significant things that the contract required [it] to do or that it was excused from having to do those things”)¹⁶; Cal. Civ. Code § 3392 (“Specific performance cannot be enforced in favor of a party who has not fully and fairly performed”). SCO never even pled, let alone proved, that it substantially performed its own obligations and the law of this case is that it did *not*.

In this case, Judge Kimball found, and the Tenth Circuit affirmed, that:

SCO was required to follow the additional restrictions imposed by Amendment No. 2 on transactions that concern buy-outs. SCO did not comply with these terms. . . . SCO was without authority to enter into the 2003 Sun Agreement under Amendment 2, Section B, of the APA.

(Order at 36, Dkt. No. 542.) *The SCO Group*, 578 F.3d at 1227. Judge Kimball’s determinations that were affirmed or left undisturbed on appeal constitute binding law of the case in this proceeding. *See Rohrbaugh v. Celotex Corp.*, 53 F.3d 1181, 1183 (10th Cir. 1995) (law of the case doctrine bars relitigation of “issues previously decided, either explicitly or by necessary implication”)(citation omitted); *Williamsburg Wax Museum, Inc. v. Historic Figures, Inc.*, 810 F.2d 243, 250 (D.C. Cir. 1987) (“legal decision made at one stage of litigation, unchallenged in a subsequent appeal when the opportunity to do so existed, becomes the law of the case for future stages of the same litigation, and the parties are deemed to have waived the right to challenge that decision at a later time”).

“The doctrine of substantial performance provides that a party is deemed not to have breached a contract if its conduct was a ‘trivial and innocent’ departure from the contract’s requirements.” *Gulf Ins. Co. v. First Bank*, No. Civ. S-08-209 LKK/JPM, 2009 U.S. Dist. LEXIS 32488, at *12 (E.D. Cal. Apr. 10, 2009) (citing *Medico-Dental Bldg. Co. of Los Angeles v. Horton & Converse*, 21 Cal. 2d 411, 433-34, 132 P.2d 457 (1942), citing *Jacob & Youngs, Inc. v. Kent*, 230 N.Y. 239, 241, 129 N.E. 889 (1921)). To demonstrate substantial

¹⁶ That “all conditions required for performance” have occurred is a separate element. CACI 325.

performance, SCO must prove that “the omissions and deviations [from the contract] were not willful or fraudulent” and “may be easily remedied or compensated.” *Shell v. Schmidt*, 330 P.2d 817, 820 (Cal. App. Dist. 1958) (quoting *Thomas Haverty Co. v. Jones*, 185 Cal. 285, 289 (1921); *Posner v. Grunwald-Marx, Inc.*, 363 P.2d 313, 322-23 (Cal. 1961)). The court in *Shell* further elaborated that “[i]t is difficult to see how deviations major enough to constitute a breach of contract could be, in any semantic or actual sense, trivial.” 330 P.2d at 322.

Here, although Judge Kimball awarded some damages to prevent SCO’s unjust enrichment, he concluded that “the court could not return the parties to the same position they were in prior to the 2003 Agreement” because “Sun [had] already received the benefits of the agreement [with SCO] and developed and marketed a product based upon those benefits.” (Order at 37, Dkt. No. 542.) Such harms are not easily remedied by damages. *See, e.g., Acumed LLC v. Stryker Corp.*, 551 F.3d 1323, 1329 (Fed. Cir. 2008) (“Adding a new competitor to the market may create an irreparable harm”).

Further, because SCO is now bankrupt and cannot pay (or at least has not paid) the damages Judge Kimball awarded, the irreparability of Novell’s injury is “virtually self-evident.” *Cf. Hendricks v. Bank of Am.*, 408 F.3d 1127, 1141 (9th Cir. 2005) (affirming finding of irreparable injury where defendants were in “serious financial straits”). In addition to establishing that SCO did not substantially perform, and thus is precluded from obtaining *any* relief on its breach of contract claims, SCO’s failure to pay the damages awarded by Judge Kimball is an expressly enumerated statutory bar to specific performance. *See* Cal. Civ. Code § 3392 (“Specific performance cannot be enforced in favor of a party who has not fully and fairly performed . . . except where his failure to perform is only partial, and either entirely immaterial, or capable of being fully compensated, *in which case specific performance may be compelled, upon full compensation being made for the default*”) (emphasis added).

Given that SCO has failed to show it substantially performed under the APA, the only means by which SCO could satisfy this element of its claims for specific performance and breach of the implied covenant was to prove that its failure to perform was excused. A plaintiff may

demonstrate that its nonperformance is excused due to a failure by the defendant to meet a condition precedent¹⁷ to the plaintiff's performance.¹⁸ But here SCO has presented no evidence or argument that any condition precedent existed to SCO's obligation to follow the additional restrictions imposed by Amendment No. 2 on transactions that concern buy-outs. SCO's failure to comply with these obligations is not excusable. Thus, SCO's claims based on breach of contract fail as a matter of law because it failed to substantially perform under the APA, and has not offered any evidence that its failure was excused.

V. CONCLUSION

Based on the foregoing, this Court should grant Novell's claim for declaratory relief and deny SCO's claims for specific performance and breach of the implied covenant of good faith and fair dealing.

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Respectfully submitted

By: /s/ Sterling Brennan

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¹⁷ A condition precedent is one which is to be performed before some right dependent thereon accrues, or some act dependent thereon is performed. *Toll Bros., Inc. v. Chang Su-O Lin*, 615 F. Supp. 2d 1100, 1119 (N.D. Cal. 2009) (*citing* Cal. Civ. Code § 1436).

¹⁸ This inquiry is different from that under Cal. Civ. Code § 3392. An inquiry under Section 3392 focuses on whether the plaintiff performed the conditions precedent required of it under the contract. The present inquiry focuses on whether the defendant failed to perform a condition precedent required of the defendant prior to some performance by the plaintiff. Thus, the issue of whether SCO's obligation to remit payments under the Sun agreement "can be considered a condition precedent" to Novell transferring the copyrights is not relevant to the present inquiry. (*See* Order Granting Pl.'s Mot. in Limine No. 3 to Exclude Reference to Novell's Monetary J. against SCO and Denying Def.'s Mot. in Limine No. 11 to Exclude Evidence of Substantial Performance at 2, Dkt. No. 728.)